

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2022/2023

BAW4634 – BUSINESS PLANNING TAXATION
(All Sections / Groups)

05 JULY 2023
9.00 a.m. – 12.00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 13 pages excluding the cover page with **THREE (3)** Questions only.
2. Attempt **ALL** questions. The distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.
4. All questions must be answered in English.

All questions are based on the Income Tax Act 1967 (as amended), Real Property Gains Tax Act 1976 (as amended), Sales & Service Tax Act 2018 and Stamp Act 1949 (as amended) and legislations passed up to the year 2022.

QUESTION 1

Assume it is 25 January 2023.

You are an ICAEW Chartered Accountant working for a firm of ICAEW Chartered Accountants.

Beta Manufacturing Sdn Bhd (Beta) is a client of your firm which is a Malaysian tax resident company and newly sales tax registrant under the Sales Tax Act (STA) 2018. Beta manufactures and sells electrical equipment for the local and international market. Beta prepares its accounts to 31 December annually. Beta owns a subsidiary, Alpha Sdn. Bhd. (Alpha). Beta has requested your advice pertaining to the following:

i) Payment for consultancy fee

Beta paid RM351,000 net after withholding tax to a foreign specialist on 15 November 2022. Withholding tax was remitted to the Inland Revenue Board (IRB) on 31 January 2023. The amount of the total consultation fee payment to the foreign specialist was included in the statement of profit and loss of the company.

ii) Capital expenditure

Beta sold one of its factories on 15 January 2022, receiving cash RM800,000 from the purchaser. The factory was purchased on 1 December 2016 for RM720,000.

Beta bought a second-hand truck for RM185,000 on 3 May 2022. The truck was unfit for use until it was repaired. Thus, Beta paid an initial repair cost for RM3,800.

iii) Other income

In the year ended 31 December 2022, Beta received rental income from a rented warehouse of RM15,600 per month. The property has been rented out since October 2020. In addition, Beta also received the following income for the year of assessment (YA) 2022:

- Interest income of RM120,000 and RM180,000 respectively from Beta's investment in the Malaysian company's projects in Malaysia and Brunei.
- Unrealised foreign exchange gains of RM99,000 from the purchase of raw material from Japan.

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iv) Imported materials and manufactured goods

Beta imported raw materials from independent suppliers in Japan, amounting to RM445,000 on 17 February 2022. The imported materials were subjected to import duty of 20%.

Beta sold and exported its taxable products to its distributors at the following locations:

Sold to Malaysian market

Beta sold RM360,000 and RM520,000 to distributors in Selangor and in Sabah respectively. Beta issued an invoice dated 1 May 2022 and 24 June 2022 for Selangor and Sabah's distributors respectively. Full payment was received in July 2022 from Selangor's distributor but Sabah's distributor only paid 40% from the total amount in October 2022.

Sold to a subsidiary

Beta sold goods for RM289,000 to Alpha, a wholly owned subsidiary of Beta. The normal selling price was RM305,000. The invoice date was on 1 December 2022.

Exported to Singapore

Total sales of RM880,000 was made and the invoice was issued on 13 March 2022. The full payment was received in August 2022.

v) Alpha Sdn. Bhd.

Alpha commenced its business on 1 June 2021 and is currently operating at a loss. However, the top management expect Alpha will make a profit within the next three or four years. The following is the information for Alpha for YA 2022:

- Current year adjusted business loss of RM164,000
- Unabsorbed business loss of RM231,000
- Capital allowances of RM360,000
- Balancing charges of RM243,000

Alpha purchased heavy machine paying RM400,000 in February 2022. However, the asset frequently needed to be repaired and was in a poor condition. Thus, Alpha plans to dispose the asset in 2023 and expects to receive RM210,000 from the disposal. Alpha had claimed capital allowance for the asset in 2022.

Required:

Based on the above, explain:

- (a) the tax treatments of the following. Provide workings to support your answer.

Continued...

- payment for consultancy fee from withholding tax perspective (**item i**).
- disposal of factory if the initial allowance is 10% and the annual allowance is 3% (**item ii**).
- tax deductibility of the initial cost for the truck (**item ii**).
- taxability of other income (**item iii**).

(15 marks)

(b) the following for the calculation of sales tax payable by Beta and when the sales tax for manufactured goods would be due to the Royal Malaysian Customs Department. Assume the sales tax rate is at 10%.

- imported raw materials from independent suppliers
- manufactured goods sold to the Malaysian market
- manufactured goods sold to a subsidiary
- manufactured goods sold to Singapore

(10 marks)

(c) whether Alpha should dispose of the heavy machine in 2023 (as per **item v**). Provide working to support your answer. Assume that the annual allowance rate is 20%.

(5 marks)

(d) the impact of business loss and capital allowance for YA 2022 on Alpha.

(5 marks)

[Total: 35 marks]

QUESTION 2

You are an ICAEW Chartered Accountant in Globe Service & Co. Kamil is one of your personal tax clients for many years. Kamil is a Malaysian tax-resident and runs an unincorporated business, Kamil Printing Enterprise (KPE), a printing and stationery business. Due to low demand and high overhead cost, KPE's profit has declined and become unprofitable from year to year. KPE has always prepared its accounts to 31 December.

Kamil has sent you an email informing you of his intention to cease business in January 2023 and sell it to a potential buyer, Big Bro Sdn. Bhd. He provided KPE's current trading position and the plans to close it down by selling off assets (**Exhibit 1**).

In the email, Kamil informed you that he plans to use the proceeds from selling KPE business to invest in property. The property will be tenanted starting from May 2023 to generate rental income. However, Kamil is unsure whether he should consider the income as an investment income or a business income. Kamil provided the details of his plans for property investments (**Exhibit 2**).

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In addition, Kamil also reported that he has under-declared taxable investment income in his tax return for the year of assessment (YA) 2021.

Exhibit 1: KPE's current trading position and the plans to close sell off assets:

- i) Estimated adjusted trading loss for the year ended 31 December 2022 are RM136,000
- ii) Assets to be sold on the cessation of business and the estimated sale price:

	RM
Closing stock-in-trade	160,000
A small retail shop (Note 1)	420,000
Van (Note 2)	25,000

Note 1: the property was purchased on 13 May 2012 at RM310,000. Kamil is the owner of the property. KPE had never claimed any industrial allowance from the use of the asset.

Note 2: the van was purchased in 2018 through hire purchase agreement. Kamil had settled the full payment to the bank. The residual expenditure of the asset in 2021 was RM30,000.

- iii) No trade debtors as KPE has collected all the debts.

Exhibit 2: Details of Kamil investment

To start the investment, Kamil intends to purchase one residential property and one shop lot. The estimated purchase price for a residential property and a shop lot are RM480,000 and RM660,000 respectively. Starting from May 2023, the residential property will be rented out RM2,800 per month and the shop lot will be tenanted for RM15,000 per month. Kamil will pay deposits of 15% for each property and the balance will be financed through bank loans.

Kamil expects that he will incur the followings expenses for the properties for 2023:

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A residential property:

	RM
Quit rent and assessment	3,200
Maintenance fees	5,280
Repair	12,500
Furniture and fitting	28,000
Advertising cost to get the tenant.	1,400
Deposit for utilities	1,000
Interest on loan	8,000

A shop lot:

	RM
Quit rent and assessment	8,900
Build-in air-conditioner	38,000
Security service	21,500
Deposit for utilities	3,100
Fire insurance	500
Interest on loan	20,000

Required:

(a) Prepare explanations to Kamil about the tax implications upon the cessation on:

- the estimated adjusted trading loss
- the sales of KPE's assets. Provide workings (if any) for the real property gains tax, balancing charge or balancing allowance and capital allowance to support your answers.
- trade debtors

(10 marks)

(b) Prepare explanations on the differences of tax consequences for YA 2023 whether Kamil should consider the rental income as an investment income or a business income by providing:

Continued...

- the computation of chargeable income if rental income is treated as a business income. The calculation must include capital allowance for the capital expenditure and the business loss from KPE.
- the computation of chargeable income if rental income is treated as an investment income.
- a recommendation about which option will be the most tax efficient for Kamil.

(15 marks)

(c) Compute the stamp duty for each property acquired by Kamil.

(5 marks)

(d) Prepare explanation on action to be taken by Kamil from ethical perspective of the under-declared income in his YA 2021's tax return.

(5 marks)

[Total: 35 marks]

QUESTION 3

You are an ICAEW Chartered Accountant working as a tax adviser. Recently you received an email from Brian who is an executor of your firm's client, Steward. Brian has some concerns on tax matter and seeks your advice.

Background of information:

Brian, a Malaysian tax resident was appointed as an executor of Steward's estate. Steward passed away after involving in a car accident on 31 January 2022. Steward, a Malaysian citizen and has been resident in Malaysia for tax purposes since the year of assessment (YA) 2000 and submitted tax forms to the Inland Revenue Board of Malaysia (IRB). However, his resident status and tax forms have yet to be determined and submitted for YAs 2021 and 2022 due to the accident. Details of Steward's pattern of stays in Malaysia for YAs 2021 and 2022 is per **Exhibit 1**.

According to the will, Brian will receive a total of RM12,000 remuneration. Meanwhile Steward's wife and a son, aged 20 years old will be paid total annuity of RM80,000. The wife and son are working and have their own incomes. Steward received income from different sources and Brian has compiled the information of all estates in Malaysia (**Exhibit 2**).

The will also states that Steward will transfer the ownership of his bungalow to his wife and an apartment to the son. Steward and his family are staying in the bungalow and the apartment was rented out for RM1,800 per month since January 2020. Therefore, Brian decides to fulfil Steward's will.

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Exhibit 1: Steward's pattern of stay in Malaysia for YAs 2021 and 2022.

YA	Status
2021	
1 January – 30 April	In Malaysia
1 May – 21 May	In Australia (holiday)
22 May – 3 June	In Australia (business trip)
4 June – 30 September	Malaysia
1 October – 30 November	In Brunei (business trip)
1 December – 31 December	In Malaysia
2022	
1 January – 14 January	In Malaysia
15 January – 22 January	Singapore (visiting friend)
23 January – 30 January	In Malaysia
31 January	In Malaysia (passed away due to car accident)

Exhibit 2: The information related to Steward's income and expenses are as follows:

INCOME	YA 2021	YA 2022
1. Business income in Malaysia		
Adjusted (loss)/ income	(130,500)	200,000
Capital allowance	13,600	10,100
Balancing charge		15,500
2. Business income in Brunei		
Adjusted income	223,000	33,450
2. Employment income		
Adjusted income (Note 1)	102,200	Nil
3. Rental income (Note 2)	21,600	Nil

Note 1: Steward resigned from an employment contract with effective from 1 January 2022.

Note 2: Brian excludes the rental income for YA 2022 as it should be non-taxable on Steward if the property is transferred to the son.

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EXPENSES	DETAILS
Employee's Provident Fund for 2021	RM12,264
Medical insurance for Steward's wife and son	RM1,250 per month since 2015

Required:

- (a) Determine the residence status of Steward for YAs 2021 to 2022 (quote the relevant section). Explain tax consequences resulting from the residence status of Steward. (5 marks)
- (b) Explain to Brian whether his action to exclude rental income assessable on Steward for YA 2022 is correct and comply with section 65 of the Income Tax Act (amended) 1967. (5 marks)
- (c) Discuss whether the transfer of the properties by Brian to Steward's wife and the son will attract the real property gains tax payable. (3 marks)
- (d) Compute the chargeable income tax for Steward and his's estate for YAs 2021 and 2022. (12 marks)
- (e) Explain to Brian the eligibility to claim personal reliefs and special relief against Steward's chargeable income in YA 2021 and estate in YA 2022. (5 marks)

[Total: 30 marks]**Continued...**

APPENDIX

TAX RATES AND ALLOWANCES

The following tax rates, allowances and values are to be used in answering the questions.

- **Income tax rates for resident individuals for the Year of Assessment (YA) 2022.**

Category	Chargeable Income	Calculations (RM)	Rate %	Tax (RM)
A	0 - 5,000	On the First 5,000	0	0
B	5,001 - 20,000	On the First 5,000		0
		Next 15,000	1	150
C	20,001 - 35,000	On the First 20,000		150
		Next 15,000	3	450
D	35,001 - 50,000	On the First 35,000		600
		Next 15,000	8	1,200
E	50,001 - 70,000	On the First 50,000		1,800
		Next 20,000	13	2,600
F	70,001 - 100,000	On the First 70,000		4,400
		Next 30,000	21	6,300
G	100,001 - 250,000	On the First 100,000		10,700
		Next 150,000	24	36,000
H	250,001 - 400,000	On the First 250,000		46,700
		Next 150,000	24.5	36,750
I	400,001 - 600,000	On the First 400,000		83,450
		Next 200,000	25	50,000
J	600,001 - 1,000,000	On the First 600,000		133,450
		Next 400,000	26	104,000
K	1,000,001 - 2,000,000	On the First 1,000,000		237,450
		Next 1,000,000	28	280,000
L	Exceeding 2,000,000	On the First 2,000,000		517,450
		Next ringgit	30	

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• **Reliefs for the Year of Assessment (YA) 2022.**

	RM
Personal relief	9,000
Disabled taxpayer (additional relief)	6,000
Spouse relief	4,000
Disabled spouse relief (additional relief)	5,000
Medical expenses for parents	8,000
1. Medical expenses for serious diseases	8,000
2. Vaccination expenses for self, spouse and child. (Restricted to RM1,000)	
3. Medical expenses for fertility treatment for self or spouse	
4. (i) Complete medical examination for self, spouse, child as defined by the Malaysian Medical Council (MMC). (ii) COVID-19 detection test including purchase of self- detection test kit for self, spouse, child. (ii) Mental health examination or consultation for self, spouse or child (Restricted to RM1,000)	
Basic supporting equipment for disabled taxpayer, spouse, children, or parents	6,000
Child relief (below 18 years old)	
- Each	2,000
- Disabled	6,000
Child relief (over 18 years old and studying in higher learning institutions)	
- Each	8,000
- Disabled	14,000
Amount deposited into SSPN for child	8,000
Life insurance premium	3,000
EPF contributions	4,000
Premium on deferred annuity contract and private retirement scheme	3,000
Premium on medical/education insurance	3,000
Employee's contribution to SOCSO scheme	350
Education fees paid by taxpayer for his own self-improvement	7,000
Lifestyle expenses	2,500
Additional lifestyle- purchase of personal computer, smartphone or tablet for self, spouse or child	2,500
Lifestyle – Additional relief for the use / benefit of self, spouse or child in respect of purchase of sports equipment, payment of rental or entrance fee to any sports facility and payment of registration fee for any sports competition	500
Breastfeeding equipment	1,000

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Fees paid to childcare centre and kindergarten for a child aged 6 years and below	3,000
Payment for accommodation at premises registered with the Commissioner of Tourism and entrance fee to a tourist attraction	1,000
Expenses on charging facilities for Electric Vehicle (Not for business use)	2,500

- Rebates**

Rebates	RM
Chargeable income $\leq$ RM35,000	
Individual	400
Additional relief when wife/husband relief is claimed	400

- Benefits-in-kind (BIK) scale rates as per Inland Revenue Board (IRB) guidelines**

Cost of car when new	Annual prescribed benefit of motorcar	Annual prescribed benefit of petrol
RM	RM	RM
Up to 50,000	1,200	600
50,001 - 75,000	2,400	900
75,001 - 100,000	3,600	1,200
100,001 - 150,000	5,000	1,500
150,001 - 200,000	7,000	1,800
200,001 - 250,000	9,000	2,100
250,001 - 350,000	15,000	2,400
350,001 - 500,000	21,250	2,700
500,001 and above	25,000	3,000

The value of the car benefit equivalent to half of the above rates is taken if the car provided is more than five years old.

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• **Prescribed value of household furnishings, apparatus and appliances**

Category	Type of Benefit	Annual Prescribed value of BIK provided RM
1	Semi-furnished with furniture in the lounge, dining room or bedroom.	840
2	Semi-furnished with furniture as in Category 1 and one or two of the following: • air-conditioners • curtains and alike • carpets	1,680
3	Fully furnished with benefits as in Category 1 and 2 plus one or more of kitchen equipment, crockery, utensils and appliances.	3,360

Other benefits

RM per month

Household servant	400
Gardener	300
Driver	600

• **Rates of Capital Allowances**

	Motor Vehicles/ Heavy Machinery	Plant & Machinery (general)	Office Equipment, Furniture & Fittings, Others	Industrial Building
Initial allowance	20%	20%	20%	10%
Annual allowance	20%	14%	10%	3%

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- Real property gains tax**

DISPOSAL PERIOD	TAX RATE FOR YEAR OF ASSESSMENT 2022		
	PART I Other than Part II and Part III [eg: individual, partnership, executor of the estate of a deceased person who is a citizen or a permanent resident]	PART II Company incorporated in Malaysia or trustee of a trust	PART III Individual who is not a citizen and not a permanent resident, or an executor of the estate of a deceased person who is not citizen and not a permanent resident, or a company not incorporated in Malaysia.
Disposal within 3 years after the date of acquisition	30%	30%	30%
Disposal in the 4th year after the date of acquisition	20%	20%	30%
Disposal in the 5th year after the date of acquisition	15%	15%	30%
Disposal in the 6th year after the date of acquisition	0%	10%	10%

- Sales and service tax**

	Rate %
Sales tax	10
Service tax	6

- Stamp duty**

Rates of duty under the First Schedule
Conveyance, assignment, transfer or absolute bill of sale

	Rate %
Sale of property - from 1.7.2019 onwards	
First RM100,000	1
RM100,001 to RM500,000	2
RM500,001 to RM1,000,000	3
>RM1,000,000	4
House loan agreement	0.5
Transfer of shares or marketable securities	0.3
Transfer of shares or marketable securities by using contract note	0.1

End of paper.